

Energy Strategy Advisory Committee Meeting 8-13-02

SeaTac, WA

Summary Meeting Notes

Discussion of Guiding Principles

Principle #1

- Wording is important. “Implement all” implies more than is appropriate.
- Is the state an implementer or is its job just to promote. The word “all” does not allow room to account for other issues.
- But this can be viewed as goal. It doesn’t mean we have to achieve everything.
- It is important that the acquisition of cost-effective conservation be institutionalized in guidelines and standards (for appliances, construction standards, etc.). This is a more efficient process for obtaining energy efficiency rather than having to use incentives through a local utility to go out and get it. We have been doing weatherization for 20 years. At some point we ought to get there. If homes are not being built right, they should be.
- Cost-effective is the operative term. We have harvested the low hanging fruit. Let’s make sure what we acquire is cost-effective.
- It is also important to recognize that we can achieve cost-effective conservation through rate design. This provides better market signals to consumers.
- Load management is not energy conservation. Load management is not reflected in this principle. It should go somewhere.
- These are guiding principles – we shouldn’t caught up in the tools.
- The devil is in the details. The details help provide meaning, but we have to be careful not to get caught up in them.

Principle #2

- We need to strike a balance between the environment and affordable power. Otherwise we may have new facilities locating outside the state or region.
- The energy system is not an isolated system. It is related to the environment, health, indoor air quality, etc. This broader universe often gets lost. We need to include “consistent with other state policy” in the principle.
- The term “cost-effective” is used broadly in the principles. But we don’t have unlimited resources. We can’t do everything.
- Least cost resource planning is missing. It is not in any of the principles. We need to have mechanisms for taking a comprehensive look at these issues.

Principle #3

- This principle implies that science and economics are the only two things important for energy policy.
- These are not necessarily the only ways to develop policy. Some wordsmithing could correct this impression.
- Policies and the basis for policies need to be peer reviewed

Principle #4

- We need to work with others, but this is the Washington State Energy Strategy. It needs to reflect Washington needs.
- We have to look at the interests of the region in order to meet Washington’s needs.
- We have regional forums now. We are not deficient in this area.
- Is California a nearby state? The focus should be on NW relationships.

- Fundamentally, the current language is correct. We need to form relationships where they are mutually beneficial. We do have a relationship with California and it is extremely important. Politically it is very important not to be isolated.
- Right now the principle reads like “I’ll scratch your back if you scratch mine” rather than suggesting the need to develop common interests.

Principle #5

- Does this principle still hold today?
- It needs to be simplified to reflect a balance of market forces and regulation.
- First and foremost we need to protect access (like what Chuck wrote). I am uncomfortable with an emphasis on market forces.
- Market forces will protect consumers. We need to link consumers more closely to the market.
- The NWPPC analysis indicates that NW customers do not see market prices (and that this is a concern). But one role of government is to shield consumers at times from market prices.
- Tiered rates are one way to achieve some balance between the market and consumer needs.
- When we look at the linkage between market forces and consumers we need to consider that the whole history of BPA is to provide power at cost. We invested in that and we have the benefit of lower rates.
- My focus is on the consumer. This does not preclude the use of market forces. But our overriding goal is to protect consumers.
- Perhaps we could insert market forces into Chuck’s statement. If markets are structured well they can deliver benefits.
- Alternative language (from Marilyn) – “harness markets where they provide consumer choices...” Tiered rates and demand response are examples for accomplishing this.
- The principle only lists a few market forces. We should list all of them or not list any. We can get in trouble when we just list a few and exclude others.
- Concern was expressed that the principle will be interpreted to mean only the achievement of the lowest price at the expense of reliability.
- The benefit should not be narrowly interpreted to just mean price. Benefits need to be measured from the perspective of the consumer.
- Consumer is defined broadly to mean businesses, industry, residential ...

Principle #6

- Do I have any idea how to do any of these things? Certainly there are matters of law that affect investment. Disruptions in the market have put a chill on investment. The state could do some things re: siting and how the UTC handles its business. The state can be a force for stability and predictability. We need to recognize this.
- In the past we took the investment climate for granted. The energy crisis was due to a failure in investment markets. Somewhere we need a principle that reflects that.
- There are impediments to using bonds for wind development
- What Craig has written in his comments is an important principle that needs to be added. It was suggested that this replace principle #6, but it was also noted the #6 as stated is important because it is the only place where “social” value appears.
- It is not clear what principle #6 is getting at.
- We need to recognize that energy policy is social policy. It also includes economics and a lot of it is political (federal action).
- Looking at the situation in California. Where were we at when decisions about the market in California were being made? We were affected first.

Principle #7

- I am uncomfortable with removing low-income from the principle.

- I don't disagree with including low-income; my proposed new language adds a new concept.
- Having access does not mean a person can afford the power.
- Low-income has to be clear in the principle
- Revise the principle with the first sentence referring to access and the second mentioning low-income.

Principle #8

- No comments or discussion

Principle #9

- The bottom line is that we are in a surplus situation, prices are really low, BPA is financially strapped, and they are passing on a 60% rate increase. They are spending money on renewable generation to produce kilowatts that are not needed. This spending does not make sense for my customers.
- What window of time are we looking at? Is it only 1-2 years or is it longer? At some point in time the supply and demand will match.
- We should be looking at a long-term vision. But we do need to consider the short-term impacts.
- Should we only cultivate diversity in new energy supply or should we be looking at ways to diversify the existing generation mix and reduce our dependence on hydro?
- We need to be sure we stay at the 40,000 foot level when modifying this principle (see Marilyn's language)
- National legislation (e.g. the Senate renewable fuel standard) will affect us regardless of what we decide. We need to be flexible.

Principle #10

- Does this mean public participation in development of the strategy? The last strategy had broad participation, but there are not enough resources available to have broad participation in the current revision process.
- Use Kelly's proposed language to address this.

Additional Comments/New Principles

- Not sure that we need new principles. Additional comments can be incorporated into existing principles.
- Bottlenecks in the transmission infrastructure need to be addressed.
- "Federal" needs to be in the principles
- Access is important. This is partly an infrastructure issue.
- We need to support the devolution of power to those more closely aligned to the market. This is an important principle for the power industry.
- The issue of access and who has access is very important. We need to keep the utility obligation to serve. This keeps accountability clear and makes sure there is an adequate supply. We should not favor opening the market – the obligation to serve is weakened.
- We need to consider the RTO/transmission issue. We should be more aggressive putting generation near the load centers. Maybe this should be worked into one of the principles.
- We need to be sure the word reliability is in the principles.
- We should promote the state as a leader in energy technology.
- The Northwest should try to be energy independent.
- When talking about energy independence we really need to consider reliability. We don't want to lose the efficiency that the electricity intertie provides us. We also need to be sure that safety and security is part of reliability and is included in the principles.
- We don't want the principles to be just economically driven.
- We should consider the obligation of new generation in the state to serve state consumers.

- Independent power producers would rather sell in state if the rules are clear and they know who they are dealing with.
- Independent power producers already have access to these customers. Not sure this needs to be a principle.
- This is something that can be worked into reliability
- Greenhouse gases should be part of our discussion.
- Economic development should be part of what we talk about.

Conservation and Renewables

Nancy Hirsch – Northwest Energy Coalition

- How should we approach decisions about conservation and renewables?
- Review of the benefits of investing in efficiency and renewables.
- If we would have kept up our investment level in efficiency and renewables we would have saved 465 aMW and \$1.7 billion.
- NW energy efficiency potential by 2020 – over 4,500 aMW
- NW renewable potential by 2020 – 10,000 aMW (4-6 cents/kWh) (Washington is 1/3rd)
- Suggested strategies for achieving renewable and efficiency benefits.
 - Long-term stable funding, incentives, and delivery
 - Oregon systems benefits and Washington green power law
 - Tax credits
 - Support market transformation
 - Building codes and permitting
 - Efficiency standards for appliances and equipment
 - Leadership in government for acquiring efficiency and renewable resources
 - Statewide renewable standard
 - Statewide standard for acquiring cost-effective energy efficiency
- Questions
 - Is MSW a renewable resource? Yes.
 - Did any event precipitate the drop in conservation and renewable investment? It was a steady decline resulting from unstable and uncertain energy markets. Renewable technology was not as well developed than and this created uncertainty. In the 1993-1996 timeframe electricity was 1.5-2 cents/kWh. Energy efficiency and renewables were not cost effective at these electricity prices.
 - We need to institutionalize or stabilize investment so we are not on a roller coaster. Should this be a voluntary standard or something that is enforced? We need an enforcement mechanism or the roller coaster will continue as we have already seen.
 - In the BPA proposal, would utilities be responsible for energy efficiency or would BPA do it? This is still uncertain.

Jake Fey – Washington State University Energy Program

- BPA and local control – We need to temper this with the ability of the local entity to exercise control. We are also dealing with a regional system.
- It does not take too many crises (like last summer) to justify the investment in energy efficiency.
- Some (many?) utilities are missing the commitment to conservation. It is not a core value. Utilities were seduced by deregulation.
- Are utilities the best delivery mechanism for energy efficiency? Do we want local control? Do we want a decentralized model?

Discussion [I'm not sure from my notes whether these first two comments were still part of Jake's presentation or the discussion.]

- There is a need for a conservation set aside and provision of tax benefits.
- There should be some level of BPA involvement and some utility responsibility based on load.

- In the past when BPA collected revenue for conservation in their rates, most of this money was distributed to 7 (Westside) utilities. The other utilities did not receive their fair share.
- There are two Washingtons. Eastside Washington customers do not have the ability to pay for these programs.
- There is a problem with mandated levels of conservation. The customer makes the decision to make an investment in energy efficiency. The utility does not have control over this.
 - But the utility can make the investment attractive or unattractive.
- The “3% solution” was a negotiated compromise (between 1% and 5%) and was not based on an analysis.
- Local control will not compromise achieving our goals. Local control is being used as a scapegoat for non-commitment.
- We can’t make blanket statements about local control. We need balance and flexibility.
- Would a Federal 10% renewable fuel standard meet the desire for a state standard?
 - Yes, on the renewable side it is a good start.
- Give us some sideboards. Don’t tell us how to do it.
- Look seriously at codes. We need to get things right the first time.
 - Codes are important, but a big issue is enforcement and compliance.
- If utilities are required to meet some kind of renewable standard, then all generation should be required to meet the standard.
- Can we look back to the 70’s for good examples of conservation and conservation policy?
 - Not really. The state-of-the art has changed. There is new technology. Examples of policy action include the creation of the NWPPC, and the Avista conservation tariff rider.
- We need to consider non-traditional technology such as fiber optics and new control and information management technology that allow us to monitor and manage our loads in new ways that more effectively use the utility infrastructure.
- When we look at renewables, we need to consider if the market will bear the costs. Costs need to flow through to the customers and they need to voluntarily pay for it. It has to be competitive to keep the state competitive and growing economically. If independent power producers are asked to take an additional risk without the market covering the risk, they will go elsewhere.
- What is the mix of independent power producers that deliver renewable generation resources? Wouldn’t they deliver this resource if there were a standard?
 - An IPP would provide this resource if they could get cost recovery. So far they have not been able to recover costs and there is more risk.
- Is there an inventory of who is doing what regarding energy efficiency and renewables? Without this information, it is hard to get our arms around this issue.
 - Not really. There was the “Red Book.” The NWPPC Regional Technical Forum may be a potential source.
- California had a mandate that utilities had to buy renewable energy at any cost. This drove up prices in the state.
- What differences are we seeing now in the development of renewable generation?
 - A lot of wind development is happening now that was not occurring in the past.
- We need to recognize that the Federal tax credit is what allows wind to be cost competitive.
 - Fossil fuel generation also has a ton of subsidies.
- Kittitas County was proactive about wind, making it a conditional use and making it easier to develop wind in the county. But now there is a split in the county about wind and there are efforts underway to reverse the favorable treatment. We can’t assume there will be local support for developing this resource. There is also a tax issue that needs to be resolved regarding whether the wind generator is real property or personal property.

Natural Gas and Related Infrastructure Issues

Tim Stauff - Purvin & Gertz, Inc.

- Presented the latest natural gas views – big picture, interregional flows, and supply forecast.
- Higher natural gas prices were due in part to a colder winter in 2001 (relative to milder winters in previous years) and a drop in storage inventory.
- Under their balanced market scenario they predict future gas prices in the \$2.50-\$3.00/mmBtu range and in a supply constrained scenario in the \$3.00-\$3.50/mmBtu range.
- Current producing regions are the Texas Gulf Shore, Rocky Mountains, and Canada.
- New sources: Rocky Mountain region (coal bed methane), Mackenzie Delta, Alaskan Gas, deepwater Gulf of Mexico, existing conventional areas, and LNG
- LNG acts as a price cap on natural gas prices.
- There will be plus 171 bcf coming into the NW region in the 2000-2010 timeframe. Two-thirds of this is pass-through to California.
- The PNW outlook is strong. It is a main corridor to Canada for natural gas. There are pipeline expansions. Canadian imports continue to grow.

Questions/Discussion:

- There is a price differential between Sumas and the Rockies. Will this change?
 - No change is likely. There will be continued volatility. There was an open season to increase pipeline capacity and address the infrastructure constraint that keeps Rocky Mountain prices low. The open season was not fully subscribed.
- What might gas price volatility look like in the future?
 - We will probably see more volatility looking forward. Sumas prices tend to be more volatile because of seasonal changes.
- Does increased demand for natural gas for electricity generation raise natural gas prices for other consumers?
 - Yes, from a pure economics perspective. But generation is a level load. This can be positive to consumers because it reduces volatility.
- Does reducing natural gas demand reduce prices?
 - In the short-term, if you curtail loads, prices come down. But this can cause future price increases and volatility because exploration and infrastructure development does not occur.

Draft Issues and Options

- What are the capital needs the state is looking at? How many dollars do we need? Can we bite this off?
- Where is the money going to come from? We have pushed ratepayers as far as we can?
- BPA is going through a process with the NWPPC looking at changes in operation of the river system. This could be a source of revenue for programs.
 - This is not an issue that this group should be looking at.
- One of our strategies should be to preserve the benefits of BPA. They are at the center of any state action.
- We can address capital issues by identifying needs and costs or we could address them through policies with little cost.
- Policy issues are bigger than the state. State policy can only get at retail markets and demand. To get at broader issues like wholesale markets, supply and transmission, we have to be an advocate.
- Consumers are the focus. Consumers need to have choice. An unresolved issue is whether public utilities have natural gas authority. There is no incentive for private entities to invest in natural gas infrastructure in areas with low density. As a result, consumers in these areas do not have the choice to use natural gas. We need to have policies that clarify the natural gas authority and that provide PUDs with that authority.

- How many potential PUD natural gas customers are there? This needs to account for future state growth patterns.
- Adequate natural gas transmission capacity and storage is a key issue.
- The 800lb gorilla is the Federal policies under development. What is our position on these?
- Regarding the investment climate, we need rules and a standard market to reduce risk.
- Who provides new generation? Is it just independent power producers (a common assumption) or does it also include utilities?
 - This is not really a state policy issue. It is up to the utility to make this decision.
 - It is not an assumption in this state that a utility not own any generation resources.
- We need to have incentives that make sure that resources developed in the state are available to state consumers rather than just letting the market decide.
 - How can we avoid similar policies in other states against us?
 - This is something that could run into constitutional issues.
 - Our concern should be that the right links exist to ensure our customers are served.
- We have the conundrum of a mix of authorities. Does this result in what is best for the state?
- There is a 5000 aMW uncertainty in BPA load obligations. This needs to be resolved. It is an impediment to investment in the region.
- We need to get back to doing integrated resource plans. They create more certainty.
- We need to create a climate for innovation that promotes new resources and technology (wind, ethanol, etc.). We don't have an atmosphere for innovation now.
- We need to maintain the obligation to serve and the right to recover costs. This is a plus for the investment community.
- Streamlining permitting reduces investment risk.
- Standards should be in the form of incentives rather than mandates.
- Develop model state standards that voluntarily could be adopted locally. Then each local jurisdiction does not need to reinvent the wheel. [Example: Kittitas County went through an 8-month rulemaking process to streamline wind development requirements. These were approved. Now there is a portion of the public that opposes these new requirements and is working to over turn them.]
- Laws need to be clarified to allow for and promote utility partnering (public and private partnerships).
- We need to endorse standards and certainty. If a developer meets the ground rules, they should be able to move through the process expeditiously.
- There is lots of substance lurking below the surface.
- We need to establish air quality or CO2 standards. Use of diesel generators during the energy crisis was a big issue. The governor wants there to be clear authority on this issue. We need to provide clear standards to developers and streamline the process, rather than negotiating on a case-by-case basis.
- We need to consider appliance/equipment standards.
 - What are the appliances?
 - What would be the cost to develop the standards?
 - What are other states and California doing? There needs to be critical mass. Washington is not large enough to go it alone. We have to look for opportunities for regional collaboration.
- Remove the barriers to development and application of clean technologies.
 - What are the barriers?
- Clarify/increase BPA borrowing authority.
- OTED needs to group these comments and suggestions and then feed them back to the committee for review and comment. Post them on the web to promote dialogue.
- There is a lot of pain out there about retail rate increases.
- We need to take advantage of state and Federal programs

Flip Chart Notes:

1. Federal

- RTO-SMD-Leg
- 2. Investment Climate
 - Preferences?
 - Resolve uncertainties re: BPA obligations
 - Integrated resource planning
 - Promote innovations
 - Maintain obligation to serve and guaranteed returns
 - Clear laws/rules on utility partnering, public/private
 - Streamlined permitting
 - PUD authority for natural gas [estimates of size]
- 3. Standards
 - State standards as incentives rather than mandates. e.g. optional siting standard below 350 aMW
 - Support EFSEC standards for siting
 - Substance is key
 - Stationary diesel air quality standards
 - Appliance/equipment standards [what, how much]. Look for multi-state opportunities, fuel blind
 - Increase BPA borrowing authority

The meeting closed with a homework assignment for committee members and preparation for the next meeting September 17.